



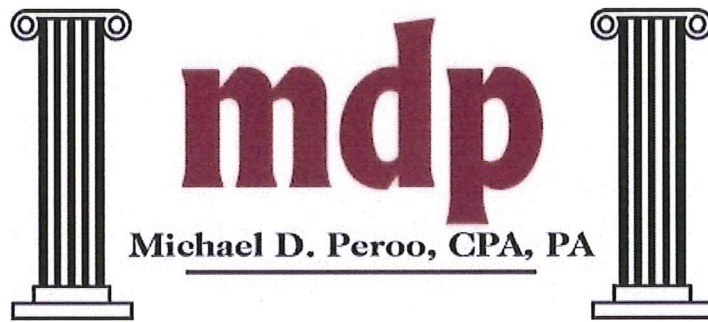
**RURAL WATER DISTRICT NO. 8
LEAVENWORTH COUNTY, KANSAS**

**Financial Statements for the
Years Ended December 31, 2012 and 2011
And Independent Auditors' Report**

RURAL WATER DISTRICT NO. 8 LEAVENWORTH COUNTY, KANSAS

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 8
Leavenworth County, Kansas

We have audited the accompanying statements of net assets of Rural Water District No. 8 (District), Leavenworth County, Kansas as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the Kansas Municipal Audit Guide (KMAG). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 and 2011 financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2012 and 2011, and the results of its operations and cash flow for the years then ended in conformity with generally accepted accounting principles.

The supplemental schedules for the years ended December 31, 2012 and 2011, listed in the foregoing table of contents are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The District has elected not to adopt the provisions of Government Accounting Standards Board Statement No. 34 requiring the presentation of management's discussion and analysis.

Michael D. Peroo, CPA, PA

April 26, 2013

RURAL WATER DISTRICT NO. 8
LEAVENWORTH COUNTY, KANSAS

STATEMENTS OF NET ASSETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 215,117	\$ 170,946
Certificates of deposit	924,737	916,858
Accounts receivable	26,332	40,173
Other receivable		1,299
Prepaid insurance	4,735	2,795
Inventory	<u>3,916</u>	<u>3,916</u>
Total current assets	<u>1,174,837</u>	<u>1,135,987</u>
PROPERTY, PLANT AND EQUIPMENT, NET	1,421,466	1,503,273
	<u>\$ 2,596,303</u>	<u>\$ 2,639,260</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,287	\$ 13,324
Customer deposits payable	384	433
Accrued liabilities	<u>8,426</u>	<u>10,436</u>
Total current liabilities	25,097	24,193
NET ASSETS:		
Invested in capital, net of debt	1,421,660	1,503,273
Unrestricted	<u>1,149,546</u>	<u>1,111,794</u>
Total net assets	<u>2,571,206</u>	<u>2,615,067</u>
	<u>\$ 2,596,303</u>	<u>\$ 2,639,260</u>

RURAL WATER DISTRICT NO. 8
LEAVENWORTH COUNTY, KANSAS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
WATER SALES	\$ 408,823	\$ 348,539
COST OF WATER PURCHASED	<u>200,391</u>	<u>156,123</u>
Gross profit from water sales	208,432	192,416
OPERATING EXPENSES:		
Salaries	100,870	99,735
Payroll taxes	8,368	10,213
Insurance	5,449	8,006
Depreciation and amortization	71,523	69,704
Utilities	9,015	9,415
Office expenses, telephone, and internet	10,866	14,315
Mileage	3,381	9,507
Professional fees	10,077	5,561
Repairs and maintenance	44,006	31,988
Miscellaneous	<u>13,903</u>	<u>8,727</u>
	<u>277,458</u>	<u>267,171</u>
LOSS FROM OPERATIONS	<u>(69,026)</u>	<u>(74,755)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	7,931	15,428
Loss on disposal of property, plant, and equipment	(10,285)	(12,143)
Late charges and other income	<u>11,150</u>	<u>9,319</u>
	8,796	12,604
LOSS BEFORE CAPITAL CONTRIBUTIONS	(60,230)	(62,151)
BENEFIT UNITS AND AID IN CONSTRUCTION	<u>16,369</u>	<u>13,647</u>
CHANGE IN NET ASSETS	(43,861)	(48,504)
NET ASSETS, BEGINNING OF YEAR	<u>2,615,067</u>	<u>2,663,571</u>
NET ASSETS, END OF YEAR	\$ <u><u>2,571,206</u></u>	\$ <u><u>2,615,067</u></u>

See notes to financial statements.

**RURAL WATER DISTRICT NO. 8
LEAVENWORTH COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members for water	\$ 423,963	374,949
Cash payments to suppliers for goods and services	(306,443)	(252,093)
Cash payments to employees for services	<u>(100,870)</u>	<u>(99,735)</u>
Net cash provided by operating activities	<u>16,650</u>	<u>23,121</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefits units	16,369	13,647
Acquisition and construction of property, plant and equipment	<u>(244)</u>	<u>(187,592)</u>
Net cash provided (used) by capital and related financing activities	<u>16,125</u>	<u>(173,945)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Miscellaneous non-operating income	<u>11,150</u>	<u>9,319</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	7,931	15,428
Change in certificates of deposit	<u>(7,879)</u>	<u>16,481</u>
Net cash provided by investing activities	<u>52</u>	<u>31,909</u>
NET CHANGE IN CASH AND EQUIVALENTS	43,977	(109,596)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>170,946</u>	<u>280,542</u>
CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 214,923</u></u>	<u><u>\$ 170,946</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (69,026)	\$ (74,755)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	71,523	69,704
Changes in:		
Accounts receivable	13,841	27,153
Other receivable	1,299	(743)
Prepaid insurance	(1,940)	319
Accounts payable	2,963	1,176
Accrued liabilities	<u>(2,010)</u>	<u>267</u>
Net cash provided by operating activities	<u><u>\$ 16,650</u></u>	<u><u>23,121</u></u>

RURAL WATER DISTRICT NO. 8
LEAVENWORTH COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Organization - The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the district. The total number of customers at December 31, 2012 and 2011 was 813 and 808, respectively.
- b. GASB Statement No. 34 – In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments. This statement, known as the “Reporting Model” statement, affects the way the District prepares and presents financial information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Assets or Balance Sheet – This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

- c. Cash equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- d. Accounts receivable – The District reads meters between the 25th and the 27th of each month, statements are sent out on the last day of the month. Payments for water service are due the 18th day of the month and will be subject to a \$10 late charge if not paid.
- e. Inventory - Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the first in, first out method.

- f. Property, plant and equipment - Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.
- g. Income taxes - The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.
- h. Benefit Units – Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$4,000 and are included in the statement of activities.
- i. Aid in Construction – Aid in Construction represents contributions from the members for line extensions and are included in the statement of activities.
- j. Customer Deposits – Represents amounts customers have placed on deposit with the District to guarantee payment of their account. The District has decided this policy is no longer necessary and is systematically returning these deposits to the customers.
- k. Operating revenues and expenses – Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally results from providing the sale of water in connection with ongoing operations. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities, and investing activities.
- l. Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CASH AND INVESTMENTS

At December 31, 2012, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name. The following represents the District's cash and certificates of deposit:

		<u>2012</u>	<u>2011</u>
Cash and cash equivalents:			
Citizens Savings & Loan Assn - checking	\$	104,003	\$ 71,884
Mututal Savings Assn - money market		<u>111,114</u>	<u>99,062</u>
	\$	<u>215,117</u>	<u>\$ 170,946</u>
	Interest		
Certificates of deposit:	Rate		
Citizens Savings & Loan Assn	0.90%	\$ 201,864	\$ 200,538
Citizens Savings & Loan Assn	0.85%	312,923	311,453
Mutual Savings & Loan	0.50%	207,945	204,867
Academy Bank	1.49%	<u>202,005</u>	<u>200,000</u>
		\$ <u>924,737</u>	<u>\$ 916,858</u>

The District is restricted to the type of investments under K.S.A. 12-1675 which primarily includes money market accounts, savings accounts, U.S. treasuries and certificates of deposits with maturities less than 2 years. The cash and investments are considered low risk and cost approximates fair value.

3. PROPERTY, PLANT AND EQUIPMENT

	<u>2012</u>	<u>2011</u>
Rural Water System	\$ 2,167,769	\$ 2,167,769
Buildings	42,707	42,707
Equipment	8,300	27,000
Vehicles	24,072	24,072
Tower	<u>433,863</u>	<u>433,863</u>
	2,676,711	2,695,411
Less accumulated depreciation	<u>1,255,245</u>	<u>1,192,138</u>
	<u>\$ 1,421,466</u>	<u>\$ 1,503,273</u>

Total depreciation expense in 2012 was \$71,523.

2012 Roll forward of property, plant and equipment:

	Beginning Balance	Additions	Disposals	Ending Balance
Rural Water System	\$ 2,167,769	\$	\$	\$ 2,167,769
Building	42,707			42,707
Vehicles	24,072			24,072
Equipment	27,000		18,700	8,300
Tower	<u>433,863</u>	<u></u>	<u></u>	<u>433,863</u>
	2,695,411	<u>\$</u>	<u>\$ 18,700</u>	2,676,711
Accumulated Depreciation	<u>1,192,138</u>	<u>\$ 71,523</u>	<u>\$ 8,416</u>	<u>1,255,245</u>
Book Value	<u>\$ 1,503,273</u>			<u>\$ 1,421,466</u>

2011 Roll forward of property, plant and equipment:

	Beginning Balance	Additions	Disposals	Ending Balance
Rural Water System	\$ 2,043,376	\$ 163,520	\$ 39,127	\$ 2,167,769
Building	42,707			42,707
Vehicles		24,072		24,072
Equipment	27,000			27,000
Tower	<u>433,863</u>	<u></u>	<u></u>	<u>433,863</u>
	2,546,946	<u>\$ 187,592</u>	<u>\$ 39,127</u>	2,695,411
Accumulated Depreciation	<u>1,146,479</u>	<u>\$ 69,704</u>	<u>\$ 24,045</u>	<u>1,192,138</u>
Book Value	<u>\$ 1,400,467</u>			<u>\$ 1,503,273</u>

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building	5,000	Straight Line	40 years
Rural Water System	5,000	Straight Line	40 years
Tower	5,000	Straight Line	40 years
Administrative Equipment	1,000	Straight Line	Various

The District will use the above to determine capitalization but can capitalize items below the threshold at their discretion.

4. ACCRUED LIABILITIES

	<u>2012</u>	<u>2011</u>
Salaries and wages payable	\$ 8,426	\$ 8,181
Payroll taxes		2,255
	<u>\$ 8,426</u>	<u>\$ 10,436</u>

5. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Leavenworth County in Kansas. The District grants credit to those customers and requires no collateral.

6. WATER PURCHASE CONTRACT

The District does not have a contract to purchase water through the City of Leavenworth, Kansas, but purchases it as needed. The District paid an average of \$2.66 in 2012, per 1,000 gallons and purchased 75,018,000 gallons of water.

7. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended December 31, 2011, except the District did not pay interest on meter deposits in accordance with K.S.A 12-822.

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, and injuries to employees. The District manages these various risks of loss through insurance policies through Employers Mutual Casualty Company. See supplemental schedule for details of the various insurance policies.

9. COMPENSATED ABSENCES

The District does not have any formal policies regarding vacation and sick leave and as a result no accruals or adjustments have been recorded to the financial statements.

10. SUBSEQUENT EVENTS

In preparing the financial statements, and according to ASC 855, Subsequent Events, the District has evaluated events and transactions for potential recognition or disclosure through April 26, 2013, the date the financial statements were available to be issued. There are no events or transactions that require adjustment to or disclosure in these financial statements.

11. LITIGATION

The District was not aware of any litigation in 2012 and 2011.

12. REVENUES AND EXPENSES

The District recognizes revenue from water sales at the time meters are read. The District does not estimate the usage from the meter readings at the end of the month. The District uses actual meter readings; this practice has been consistently applied. Late charges are recognized when the District is preparing monthly utility bills and the member is past-due in accordance with the by-laws of the District.

Expenses are recognized in the period in which the service was incurred or product received.

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RURAL WATER DISTRICT NO. 8
LEAVENWORTH COUNTY, KANSAS

INSURANCE IN FORCE
YEAR ENDED DECEMBER 31, 2012

Policy Type	Expiration Date	Company	Annual Premium	Amount of Coverage	Description
General Liability	5/9/2013	Employers Mutual Casualty Company (EMCC)	\$ 1,721	\$ 1,000,000	Aggregate limit 1,000,000 Property damage limit 500,000 Personal injury limit 500,000 Advertising injury limit 50,000 Fire damage legal liability 5,000 Medical expense
Commercial Property	5/9/2013	EMCC	\$ 1,476	469,500	Pump house and tanks 75,000 Building and personal property
Linebacker Coverage	5/9/2013	EMCC	\$ 1,114	1,000,000	Each loss 1,000,000 Aggregate
Workers' Compensation	5/9/2013	EMCC	\$ 3,660	500,000	Bodily injury by accident 500,000 Bodily injury by each employee 500,000 Bodily injury by policy limit
Employee Dishonesty	5/21/2013	EMCC	\$ 380	300,000	Limit per occurrence
Business Auto	5/9/2013	EMCC	\$ 669	500,000	Liability

**RURAL WATER DISTRICT NO. 8
LEAVENWORTH COUNTY, KANSAS**

**SCHEDULE OF STATISTICAL INFORMATION
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
Gallons sold	64,588,240	49,709,000
Gallons purchased and produced	75,017,602	58,568,000
Water loss percentage	13.90%	15.13%
Number of benefit units	813	808
Average monthly water sale per benefit unit	\$ 41.90	\$ 35.95
Average monthly costs and expenses per benefit unit	\$ 48.98	\$ 45.72
Average monthly gallons used per customer	\$ 6,620	\$ 5,127